

## Message Text

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SUBJ: SUGGESTIONS ON PAKISTAN FINANCE MINISTER HANIF'S  
MEETING WITH SECRETARY SIMON ON OCTOBER 3

REF: ISLAMABAD 10028

1. AS REFTEL INDICATES, COUNTRY TEAM UNDERSTANDS HANIF DOES NOT PLAN DISCUSS SPECIFIC SUBJECTS WITH SECRETARY SIMON. HIS INTENTION IS APPARENTLY TO EXPLAIN PAK ECONOMIC SITUATION AND MAKE PITCH FOR CONTINUED AID FLOWS.

2. IN CONTEXT OF HANIF'S LIKELY PRESENTATION, SECRETARY SIMON SHOULD BE AWARE THAT OVERALL PERFORMANCE OF PAK ECONOMY DURING LAST FIVE YEARS HAS FALLEN BELOW EXPECTATIONS OF BOTH GOP AND AID DONORS. AVERAGE PER CAPITA REAL GNP HAS ON AVERAGE BARELY GROWN TWO PERCENT PER ANNUM WHICH IS BELOW MINIMUM THREE PERCENT LEVEL TARGET OF UN. BALANCE OF TRADE OVER LAST TWO YEARS HAD BALLOONED INTO HUGE ONE BILLION DOLLAR GAP WHICH FORTUNATELY HAS BEEN COVERED BY FOREIGN AID, 43 PERCENT FROM OPEC COUNTRIES. SUBSTANTIAL TRADE DEFICITS ARE EXPECTED TO CONTINUE FOR NEXT FIVE YEARS. RECOURSE TO DEFICIT FINANCING IN BUDGET WHICH COMMENDABLY DROPPED FROM 12 PERCENT PER ANNUM IN LAST FOUR YEARS TO FIVE PERCENT IN FY/75 REPORTEDLY MAY HAVE RISEN SHARPLY THIS PAST FY/76 TO WELL ABOVE PLANNED LOW TWO PERCENT LEVEL.

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3. WHAT WORRIES COUNTRY TEAM IS THIS HIGH TRADE GAP, THE UNCERTAINTIES OF CONTINUED LARGE OPEC AID FLOWS TO HELP CONTROL IT, THE DEBT SERVICE RATION (25 PERCENT OR MORE OF EXPORTS AND REMITTANCE INCOME), AND A SHARP MONEY EXPANSION THAT MAY TRIGGER A RESURGENCE OF INFLATION. CAUSES OF THESE PROBLEMS ARE PARTLY OF GOP'S MAKING, SUCH AS DEPRESSION IN PRIVATE SECTOR IN WAKE OF FOUR WAVES OF NATIONALIZATIONS SINCE 1972, BUT OPEC OIL PRICE INCREASES, NATURAL CALAMITIES SUCH AS RECENT FLOODS, AND WORLD RECESSION IN TEXTILE AND RICE SECTORS HAVE CONTRIBUTED ALSO.

4. SECRETARY SIMON SHOULD ALSO BE AWARE THAT THESE ECONOMIC PROBLEMS HAVE CONTRIBUTED TO BHUTNX'S CURRENT EXTENSIVE DIPLOMATIC EFFORT TO HOLD A THIRD WORLD ECONOMIC SUMMIT CONFERENCE EARLY NEXT YEAR, AIMED AT PRESSURING DEVELOPED COUNTRIES TO INCREASE AID FLOWS AND LOWER TRADE BARRIERS TO LCD'S.

5. IN DISCUSSIONS WITH HANIF, WE SUGGEST SECRETARY SIMON CONSIDER MAKING FOLLOWING POINTS:

(A) WE ARE DELIGHTED WITH PROGRESS PAKISTAN HAS MADE IN CONTROLLING INFLATION, WHICH FELL FROM APPROXIMATELY 24 PERCENT LEVEL DURING LAST THREE YEARS TO ABOUT SEVEN PERCENT IN FY/76. WE HOPE THIS LEVEL WILL NOT GO UP AGAIN IN LIGHT OF REPORTED 20 PERCENT INCREASE IN MONETARY ASSETS IN FY/76.

(B) WE ARE PLEASED WITH PAKISTAN'S RECORD WHEAT CROP (8.3 MILLION TONS OR MORE) THIS PAST SPRING, DUE IN SIGNIFICANT MEASURE TO ENLIGHTENED GOP ATTENTION TO MORE USE OF FERTILIZERS, TO MORE REALISTIC WHEAT PRICING POLICIES, AND GREATER ATTENTION TO SINKING TUBE WELLS.

(C) WE WERE VERY DISTRESSED THAT PAKISTAN SHOULD BE STRUCK AGAIN BY DISASTROUS FLOODS THIS PAST AUGUST, ONLY THREE YEARS AFTER LAST FLOODS. WE WERE GLAD TO BE ABLE TO PROVIDE 200,000 TONS OF PL-480 WHEAT AS FLOOD AID.

(D) WHILE USG PLANS TO CONTINUE ITS AID FLOWS TO PAKISTAN (RUNNING \$100 TO \$200 MILLION PER ANNUM) AS WE HAVE DONE IN PAST, WE SHARE WORLD BANK'S CONCERN THAT LIMITED OFFICIAL USE

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PAKISTAN SHOULD BE MOBILIZING MORE OF ITS OWN RESOURCES TO FINANCE INVESTMENT. PAKISTAN'S SAVINGS/GDP RATE HAS DROPPED FROM 13 PERCENT IN FY/1970 TO ONLY SEVEN PERCENT IN FY/1975 (PRELIMINARILY UP TO 8 PERCENT IN FY/1976), SUGGESTING PUBLIC SECTOR AND PRIVATE SECTOR SAVINGS LEVELS ARE INADEQUATE. WORLD BANK HAS RECOMMEND PAK TAKE MEASURES TO RAISE SAVINGS RATE TO 16 PERCENT. THE INVESTMENT RATIO OF 17 PERCENT HAS BEEN MUCH BETTER BUT IS BARELY

ADEQUATE TO PAKISTAN'S NEEDS. THE BIG GAP BETWEEN SAVINGS AND INVESTMENT POINTS OUT GOP'S INCREASING DEPENDENCE ON FOREIGN AID TO MEET PAKISTAN'S DEVELOPMENT NEEDS. THIS IS WORRISOME TREND SINCE 85 PERCENT OR MORE OF GOP FEDERAL DEVELOPMENT BUDGET OVER LAST TWO YEARS HAS BEEN COVERED BY FOREIGN AID.

(E) WE ARE CONCERNED ABOUT PAKISTAN'S MOUNTING FOREIGN DEBT AND HOPE THE DEBT SERVICE RATIO CAN BE KEPT WITHIN MANAGEABLE BOUNDS.

(F) WE REGRET THAT PRIVATE FOREIGN INVESTMENT HAS NOT INCREASED IN PAKISTAN AND WONDER IF GOVERNMENT POLICIES, SUCH AS PRICE CONTROLS, ARE SUFFICIENTLY ENCOURAGING.

(G) GOP IN RECENT YEARS HAS TAKEN A RENEWED INTEREST IN FAMILY PLANNING PROGRAMS, AND US AID TO PAKISTAN IN THIS AREA IS AMONG THE HIGHEST IN THE WORLD. PAKISTAN'S FAMILY PLANNING PROGRAM IS NOW IN DIFFICULTIES BECAUSE OF ADMINISTRATIVE SHORTCOMINGS, LEADING AID TO REDUCE ITS FINANCING OF FAMILY PLANNING SUPPLIES. SECRETARY SIMON MIGHT EXPRESS INTEREST IN GOP EFFORTS TO CURB POPULAR ON WHICH IN DEVELOPMENT CONTEXT MUST BE COMPLEMENTARY TO EFFORTS TO INCREASE PAKISTAN'S PRODUCTIVITY. (PAKISTAN'S POPULATION GROWTH RATE IS THREE PERCENT, OR MORE THAN TWO MILLION PERSONS PER YEAR.

6. FINANVE MINISTER HANIF HIMSELF IS AN ENGLAND-TRAINED LAWYER (WITH PROPERTY IN CALIFORNIA), WHO APPEARS UNCOMFORTABLE AND UNSURE OF HIMSELF AS MINISTER OF FINANCE, PLANNING AND ECONOMIC AFFAIRS. HE HAS UNDER HIM, HOWEVER, SOME OF GOP'S ABLEST BUREAUCRATS, AND IT IS LIKELY THAT ONE OF THESE, FINANCE SECRETARY-GENERAL A.G.N. KAZI, WILL SIT IN THE MEETING AND CARRY PART OF THE DISCUSSION.

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